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Q3 2023 Comscore Inc Earnings Call

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PRESENTATION

Operator

Good day and thank you for standing by. Welcome to the comScore third quarter 2023 earnings call. (Operator Instructions) Please be advised that today's conference is being recorded.

I would now like to hand the conference over to your speaker today, John Tinker, Head of Investor Relations. Please go ahead.

John Tinker ***comScore, Inc. - IR***

Thank you, operator. Before we begin our prepared remarks, I'd like to remind all of you that the following discussion contains forward-looking statements.

These forward looking statements include comments about our plans, expectations, and prospects and are based on our view as of today, November 6, 2023.

Our actual results in future periods may differ materially from those currently expected because of a number of risks and uncertainties. These risks and uncertainties include those outlined in our 10-K, 10-Q, and other filings with the SEC, which you can find on our website or at www.sec.gov.

We disclaim any duty or obligation to update our forward-looking statements to reflect new information after today's call.

We will be discussing non-GAAP measures during this call, for which we have provided reconciliations in today's press release and on our website.

Please note that we will be referring to slides on this call, which are also available on our website, www.comscore.com under Investor Relations, Events and Presentations.

I'll now turn the call over to comScore's Chief Executive Officer, John Carpenter. Jon?

Jon Carpenter ***comScore, Inc. - CEO***

Thanks, John, and thank you, everyone, for joining us this evening. Let's jump right into it.

With regard to the financial print, while revenue came in short of expectations, largely as a result of lower custom deliverables, which were down double digits year on year, there was a lot of really great progress being made, particularly in our cross-platform product offerings, coupled with excellent momentum in activation, where in the quarter we announced some key strategic partnerships that we expect will continue to fuel growth for the foreseeable future.

In addition, we continued to execute in local TV where revenue growth was again up double digits. comScore also received conditional certification from the US JIC, one of only three companies to have received such certification. And we're excited about the progress we're making and what it means for our growth prospects heading into 2024.

On an adjusted EBITDA basis, we printed a solid result highlighting the progress we're making towards creating a more scalable, profitable business. We had a significant improvement in just under a year. And while we still have plenty of work left to do, I'm happy with our execution.

In 2023, we've been focused on three key things: improving our margin and cash flow profile, growing our local business, and finally, the tech and product transformation that's needed to establish the foundation we need to drive scalable cross-platform growth, and across all three we've had success.

On our margin profile, we've hit the 15% rate that we've set out to achieve earlier than expected. When you consider that we finished 2021 with a 9% margin rate and exited '22 at just under 10%, it's clear we've made significant progress by doing exactly what we told you we would do when I moved into the role.

I expect us to continue to deliver strong margins while we work to drive revenue growth in '24 and beyond.

In our local business, our third quarter revenue was up double digits for the eight consecutive quarter. Looking forward, I fully expect the local business to continue growing at double digit rates. Our strength in local is a key differentiator and it is the foundation along with digital for the cross-platform and activation products we're delivering to the marketplace.

When it comes to cross-platform, addressing tech stack and transforming the foundation that underpins our complete view of audiences is essential to delivering value for our clients and driving growth. And that's what we remain focused on.

Our cross-platform solutions are aimed at helping clients reduce waste and drive outcomes more efficiently. I fully expect, based on the momentum we built, that we'll continue to see our cross-platform product growth accelerate throughout next year.

In 2023, we've made a lot of announcements highlighting important partnerships and integrations, including integrating data from the largest smart TV platform to partnering with major streamers.

So their advertisers can leverage CCR to measure their campaigns across platforms and partnering with one of the largest demand-side platforms on a first-of-its-kind AI enabled offering for political advertising.

With CCR, we are generally paid on a per impression basis. And the growth of our impressions measured is one way to evaluate adoption of the product and those impressions are a leading indicator of revenue in future growth.

In 2022, CCR measured just 10 billion impressions. And based on progress this year alone, we anticipate that number to easily exceed 12 times the 2022 run rates. This growth is just scratching the surface of the potential for CCR. With more than 1 trillion impressions happening every day, we've got a lot of runway here, and the progress we've made with the product and the adoption of it makes me incredibly bullish for what's ahead in '24.

We've seen similar impacts to our activation business where we've made a number of partnership announcements. Each time we execute one of these integrations, the usage of our product accelerates and our growth rate ramps.

Highlighted by the 26% growth we've seen across CCR and activation through the first three quarters of this year, we fully expect to deliver accelerated growth next year.

We're focused on the growth of products that align with the needs that our clients have and for comScore ones that also have a stronger margin opportunity.

Our syndicated digital, activation, and emerging cross-platform products represent roughly 40% of our revenue today. We expect that they will command a greater share of our revenue going forward, contributing to improved margins.

Finally, when we talked about building the foundation for cross-platform growth, it's about making sure that we are able to turn our best-in-class data assets into full spectrum products and solutions needed to become the standard for cross-platform measurement in audience data.

That's where our focus is, delivering long-term value for our stakeholders via our big data scale, the commitment to being interoperable, and delivering with the speed that the market needs.

When you're making the kind of changes we're making, you're bound to experience bumps along the way. And while the revenue print this quarter doesn't live up to our expectations, the progress we're making towards our long-term objectives continues to be solid and gives me a great deal of excitement.

With that, let me pass it over to Mary Margaret, who will walk you through the results of the third quarter.

Mary Margaret Curry *comScore, Inc. - CFO*

Thank you, Jon. Total revenue for the third quarter was $91 million, down 1.9% from $92.8 million in the same quarter a year ago. Cross-Platform Solutions revenue of [$40.5 million] was essentially flat with the prior year quarter.

We continued to see double digit growth in local TV, which was offset by a decline in national TV. Revenue from our movies business was flat compared to the prior year.

Revenue from Digital Ad Solutions of $50.5 million was down 3.6% compared to $52.4 million a year ago, which, as Jon mentioned, was primarily driven by lower deliveries of certain custom digital products along with the decline in syndicated digital revenue.

These declines were partially offset by the accelerated growth we're seeing in Activation and CCR, which we expect to continue to grow as we close out the year and move into 2024.

We expect that revenue growth from certain products will continue to be challenged in Q4 as a result of the continued pressure the macroeconomic environment is putting on our clients. However, we believe the momentum we're seeing in activation and CCR will continue, and we'll reduce the revenue impact those pressures may cause.

Adjusted EBITDA for the quarter was $13.4 million, up 14.3% from the prior year quarter, resulting in an adjusted EBITDA margin of 14.7%. If you exclude the foreign exchange impact from adjusted EBITDA, this year's third quarter result of $12.3 million is up 38% over the prior year.

It's important to note that even though we're seeing softness in the top line, we're continuing to improve our adjusted EBITDA margin. One of our primary goals this year was to focus on cost execution so that we could exit the year with a margin run rate of 15%. Our Q3 expense profile is proof that we're on track with this goal.

Our core operating expenses were down 4.5% year over year, primarily due to lower employee compensation, along with strategic reductions in certain panel and data costs. We are continuing to execute on our restructuring plan and expect that it will be substantially complete by the end of the year.

In addition to our team structure, we've been focused on reducing our physical footprint. We abandoned two office spaces in Q3 and took a related noncash impairment charge of $1.5 million. And finally, we're diligently working to transform our business operations and to simplify our tech stack to drive additional efficiencies as we move into 2024.

Regarding our full-year guidance, last quarter we tightened our expectations for revenue growth to be in the low single digits. Based on where we landed in Q3 and our current expectations for the remainder of the year, we are lowering our revenue guidance to be flat to down 1% compared to the prior year.

Even with the change to the top line, we remain confident in the guidance we previously provided for adjusted EBITDA, closing out the year with a double-digit margin rate.

With that, I'll turn it back over to Jon for closing remarks.

Jon Carpenter ***comScore, Inc. - CEO***

Thanks, Mary Margaret. Thanks, everybody for joining us this evening. I also want to take a moment to thank our employees who work tirelessly every day to deliver for our clients. Without them, none of what we do on a day-to-day basis could be possible. So thank you very much.

With that, operator, why don't we open it up for questions?

QUESTIONS AND ANSWERS

Operator

(Operator Instructions) Jason Kreyer, Craig-Hallum.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Great. Thank you. Jon, I wanted to ask about the shortfall or the headwinds in the quarter and kind of looking at that, you get the slide 7 that shows digital and cross-platform and other categories. And I'm just trying to understand the shortfall and you've got things like local and activation and cross-platform that are working but revenue declined in the quarter.

So I feel like it's more than just the custom content. So maybe, again, in the vein of that slide, what is the strategy for the other revenue categories in trying to stabilize those as we go forward?

Jon Carpenter ***comScore, Inc. - CEO***

Yeah, Jason, thanks. I think the biggest contributor to year-over-year declines continues to be in the syndicated digital side of things where we have experienced some churn that's continued in the long tail part of that business. That is the biggest share of revenue that is down year on year.

And we anticipate that to continue to be down in the -- to fluctuate anywhere between down low single digits to flattish for the foreseeable future. That honestly is the biggest, biggest area where we feel the biggest pinch in terms of the overall growth rate.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Is there a path forward for that to return to growth? Or do we just expect the bigger the faster growth platforms will just offset, kind of the slower or decline that you're seeing on syndicated digital?

Jon Carpenter ***comScore, Inc. - CEO***

Yeah, I think it's a bit of a combination of both. I mean where we see strong pockets of growth continue to be with our large enterprise relationships. Those continue to be very sticky and very resilient where we know we've got some pressure, especially as aspects of the market tightened tends to be in the mid to long tail.

I think as signal loss further proliferates heading into 2024, we see that as an opportunity to be a bit of a catalyst for us. But again, I think you're talking about growth that is probably low single digits on the best case scenario in in that book of business.

So where we're largely bullish continues to be in our coupling our activation product with our cross-platform capabilities. And as that business scales, as we tried to highlight in the material, I think that's where we see some real exciting things start to take shape.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Okay. And just looking ahead to '24, I know you're not giving guide for '24, and that's not necessarily what I'm trying to ask, but as you look across the business, where are the highest confidence areas for a return to growth on the consolidated companies as you look out to next year?

Jon Carpenter ***comScore, Inc. - CEO***

It's really the momentum that we have in our cross-platform capabilities, which again, which is largely where the market is shifting, quite frankly, whether it's the traditional media players or the new media players, they're all wanting our cross-platform capabilities.

And so you see that in the accelerated adoption of CCR, you see it in the accelerated momentum that we've got in our activation product, which is essentially across platform, audience activation, product offering that we marry with our cross-platform measurement capabilities. Those two pockets are growing incredibly quickly, and we expect them to continue to scale at a significant rate.

And Steve -- Steve's in the room here with me. Do you have anything you want to add to that?

Steve Bagdasarian ***comScore, Inc. - Chief Commercial Officer***

Yeah, look, I think the other thing that we need to recognize is that there's emerging areas of the market that are something new in a headline and investment momentum. They're looking to move from the traditional pure performing part of the funnel to more mid-scale brands.

They have the audience. They have the scale. They just don't have the sales enablement strategies, right? We see that in pockets like retail media, as example, which continues to further encapsulate where dollars are shifting.

Our solutions directly hit at the heart of what their monetization strategies are looking like. And the difference between what those pockets represent versus a lot of other pockets of this particular market is this need to be able to understand a national view, but optimize any more regional or local perspective.

And this is great whitespace for us as we think about the development and the adoption of our products as we move forward and frankly it aligns really well to where media dollars are actively being invested in '24 and beyond.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

I'm sorry. I just want to push back and just clarify that. So I mean, we talked about cross-platform as being one of the biggest opportunities for growth as we go into next year, that didn't really grow much this quarter.

And so I'm trying to dissect the performance this quarter versus the opportunity as we see into next year and maybe exactly what happened this quarter unless that custom content was a greater headwind, then I'm appreciating?

Jon Carpenter ***comScore, Inc. - CEO***

Yeah, certainly custom weighed pretty significantly on the quarter. We were down meaningfully double digits, which is where a good portion of the pain in the quarter versus the expectation was felt.

And so I think what you see with our -- the combination of our local products, coupled with our digital products, while syndicated digital in and of itself as a standalone product has had its fair share headwinds, it's a significant contributor to our cross-platform product offering. That is growing significantly, and we fully expect that to continue to scale meaningfully next year.

Jason Kreyer ***Craig-Hallum Capital Group LLC - Analyst***

Okay. Thank you for clarifying.

Operator

Surinder Thind, Jefferies.

Surinder Thind ***Jefferies LLC - Analyst***

Thank you. Just taking a step back, Jon, and looking at the big picture, when you think about the longer-term opportunity, how do you actually characterize it that you're in the right position going after the right spend?

It seems like we're in a bit of a perpetual hamster wheel where we're always chasing something it seems. We're not quite getting there. And so I feel like as we look over the conversations of last couple of years, there's an opportunity here and another opportunity. It seems like we get close, but we can never quite get there.

So I just want to make sure I understand the big picture. And if, of course, the environment is just going to continue to change, and if that that in itself is part of the story here?

Jon Carpenter ***comScore, Inc. - CEO***

so I think big picture, we've been pretty clear. Look, the problem is that our clients are facing from fragmentation of media, of how we are addressing that is our cross-platform capabilities that we're bringing to market. And we're continuing to see broad-based adoption of what that looks like that was highlighted in the announcement from the US JIC on comScore being one of three that got conditional certification, which was really just the first step that they announced.

So addressing media fragmentation is a problem that our clients are faced with. Our cross-platform product offerings help solve for that. The proliferation of signal loss through the digital ecosystem, that's where product offerings like our digital capability, coupled with our activation product stand out in market.

And both of those things contribute to a significant amount of waste from an ad dollar standpoint. And so when you think about where we're focused, we're focused on addressing those specific problems as it relates to the product solutions that we're delivering to market. And we're doing it with a better margin profile. And we've talked about that since day one.

Surinder Thind ***Jefferies LLC - Analyst***

Fair enough. And then I guess on the margin profile, obviously you're kind of at current targets, but it sounded like there's maybe more.

Mary, can you maybe additional color on that? It just seems like you've managed expenses, you've continued to cut out costs. How much more can you possibly do at this point on before it starts hurting the firm?

Jon Carpenter ***comScore, Inc. - CEO***

So I think where we see, and I'll let Mary Margaret jump in here in a minute, but I think what you've also got to consider is the fact that we've got digital products that are scaling significantly in the margin profile of those product offerings. Activation, cross platform are much more attractive from a margin standpoint.

So it's not only about reaping the benefits of the restructuring efforts that the company has delivered on, but it's the mix of business. And as that shifts, as we highlighted in one of the pages earlier in the deck, that helps the margin profile continue to improve.

Mary Margaret Curry ***comScore, Inc. - CFO***

Yeah, that's right. And the margin expansion, I think is the way that I think about it, and some of that comes from the additional revenue growth that is being generated with a higher margin potential.

And then the other piece of it, when you think about our cost structure, we've done some restructuring. I think we've done and have almost completed that plan. But then in addition to the restructuring plan, there were other things like helping clean up some of our tech that ultimately will result in greater efficiencies in the long term.

And so those are -- and that takes a bit of time. That's not something that's going to be done by the end of the year. That's something that we're hoping to make some strides with in 2024.

So when you think about some of those things as well as some of the other sort of strategic initiatives that we're looking at, for example, outsourcing, offshoring, there are other things that don't necessarily hurt operations, but can provide some additional efficiencies.

And so there's definitely some upside as we move into 2024, even an incremental upside on top of what we've already done.

Surinder Thind *Jefferies LLC - Analyst*

Thank you.

Operator

Thank you. And I would now like to turn the conference back to Jon Carpenter, CEO, for closing remarks.

Jon Carpenter *comScore, Inc. - CEO*

Thanks, everybody, for joining this evening. We'll talk to you all again shortly.

Operator

This concludes today's conference call and thank you for participating. You may now disconnect. Everyone, have a great day.